

# FDIC State Profile

Winter 2004

## New Jersey

Economic activity in New Jersey remains solid; state employment growth ranks 14th out of 50 states.

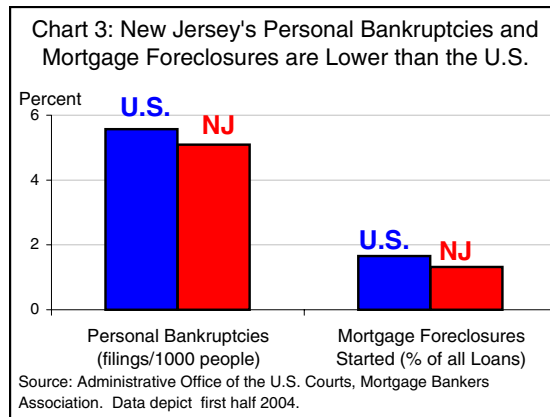
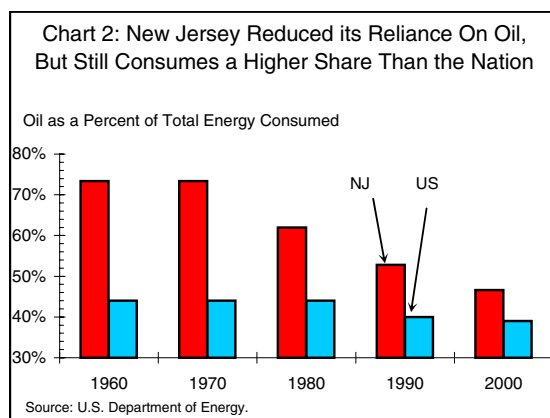
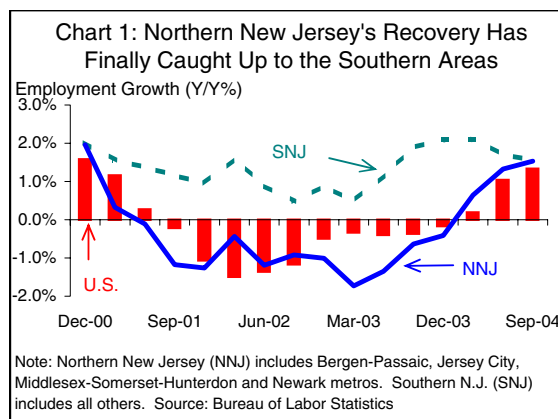
- In third quarter 2004, **Northern New Jersey**<sup>1</sup> (NNJ) job growth matched **Southern New Jersey** (SNJ) for the first time since 2000 (See Chart 1).
- After declining during the 2001 recession, job growth emerged in late 2003 in NNJ areas including **Bergen-Passaic, Newark** and **Middlesex-Somerset-Hunterdon**. Administrative support and health services led the job growth in Newark, Middlesex and Bergen. NNJ's pharmaceutical production is expected to continue to perform well into 2005.
- NNJ also has benefited from an increase in financial services jobs. While some financial jobs returned to downtown Manhattan post 9-11, other firms are adding jobs. Goldman-Sachs continued moving employees to their **Jersey City** office across the Hudson River.
- SNJ has outperformed NNJ during the past three years because of a higher share of service sector jobs, but the rate of job growth has moderated. Retail employment is driving **Camden's** economic growth and this growth is expected to continue. Job growth in **Monmouth's** leisure, hospitality and retail sector reflects increasing population and income.

The state's dependence on oil has declined steadily.

- New Jersey has reduced its reliance on oil during the past few decades, but continues to rely on petroleum relatively more than the nation (See Chart 2). The decline in manufacturing has reduced New Jersey's petroleum consumption, but the state still produces plastics and chemicals, both of which use petroleum products intensively.

New Jersey's consumers are faring relatively well.

- Trends suggest that New Jersey consumers are in better shape than the national average (See Chart 3). Throughout the late 1990s and into 2000, statewide



<sup>1</sup>Northern New Jersey (NNJ) includes Bergen-Passaic, Jersey City, Middlesex-Somerset-Hunterdon and Newark metros. Southern N.J. (SNJ) includes all Atlantic-Cape May, Monmouth-Ocean, Trenton and Vineland-Millville-Bridgeton.

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personal bankruptcy and mortgage foreclosure rates were higher than the nation. Since 2001 however, those rates have declined relative to the nation.

- New Jersey's median consumer loan past-due ratio is less than one-half the nation's. The state's favorable consumer credit quality reflects New Jersey's positive employment trend, strong housing markets, overall favorable economic performance and low interest rates.

### Home equity and construction loans have led loan growth.

- Robust housing markets have accompanied strong growth in home equity and construction loans (See Chart 4). Home price appreciation across New Jersey exceeded 18 percent in third quarter 2004, the eighth highest statewide rate in the nation. Home appreciation rates in **Atlantic City** and **Ocean City** exceeded 20 percent in the third quarter and ranked among the twenty-five highest metro areas in the nation.<sup>2</sup>
- The state's insured institutions report low home equity loan delinquency rates, consistent with national trends. While signs of deteriorating loan performance have not yet emerged, higher interest rates could pressure some consumers, particularly those with higher levels of variable rate debt.

### Office market vacancy rates increased slightly, while CRE credit quality remains favorable.

- The NNJ office market conditions slightly weakened in third quarter 2004 with a modest increase in the office vacancy rate and a slight decline in office rents. While office supply increased moderately, net absorption of office space was negative for the first time since first quarter 2003. Net absorption was weakest in Monmouth-Ocean, the area's smallest submarket.
- The commercial real estate (CRE) loan delinquency rate in New Jersey slightly declined from the previous quarter and was one-half the national rate. The median level of CRE loans-to-capital approximated the national average, with concentration levels highest in Atlantic-Cape May and Monmouth-Ocean. These areas have strong housing markets, which may contribute in part to higher levels of CRE lending.

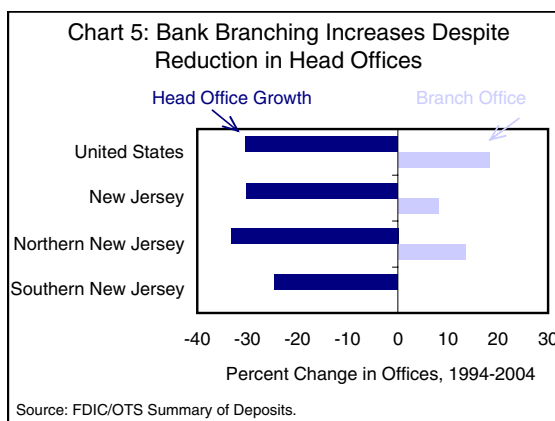
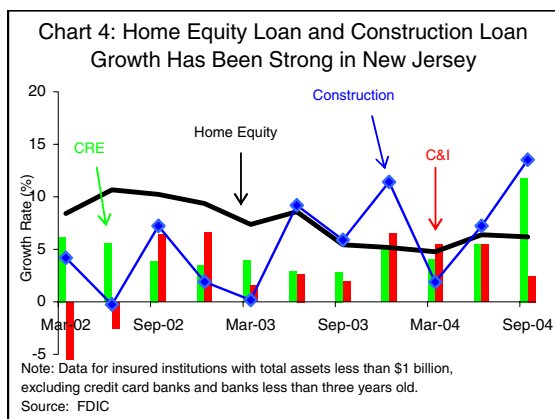
### New Jersey's institutions report a slight increase in return on assets and higher funding costs.

- New Jersey's median return-on-assets increased slightly in third quarter 2004, largely the result of an increase in

the net interest margin.<sup>3</sup> Increased asset yields, reflecting increases in market rates during the period, offset a higher median cost of funds (COF). After declining for almost four years, the median COF increased in third quarter 2004.

### Bank branch growth has been strongest in Northern New Jersey.

- Favorable demographic trends, such as high levels of household income and population growth, may be contributing to branch growth in NNJ (See Chart 5). **Morris**, **Somerset**, **Hunterdon** and **Bergen** counties have among the highest levels of per capita personal income in the state, while the populations of **Warren**, **Hunterdon**, **Sussex** and **Somerset** counties have averaged among the fastest growing areas in the state.
- Strong branch activity will continue to fuel competition for deposits.



<sup>2</sup>Office of Federal Housing Enterprise Oversight, OFHEO House Price Index Press Release, December 1, 2004.

<sup>3</sup>Includes FDIC-insured institutions headquartered in New Jersey excluding banks less than three years old and credit card banks, unless otherwise noted.

## New Jersey at a Glance

<b>General Information</b>	<b>Sep-04</b>	<b>Sep-03</b>	<b>Sep-02</b>	<b>Sep-01</b>	<b>Sep-00</b>
Institutions (#)	140	146	152	151	148
Total Assets (in thousands)	160,012,151	149,099,450	132,014,948	116,106,123	137,488,708
New Institutions (# < 3 years)	4	11	19	27	24
New Institutions (# < 9 years)	40	43	44	43	36
<b>Capital</b>	<b>Sep-04</b>	<b>Sep-03</b>	<b>Sep-02</b>	<b>Sep-01</b>	<b>Sep-00</b>
Tier 1 Leverage (median)	9.41	8.93	9.12	10.28	9.84
<b>Asset Quality</b>	<b>Sep-04</b>	<b>Sep-03</b>	<b>Sep-02</b>	<b>Sep-01</b>	<b>Sep-00</b>
Past-Due and Nonaccrual (median %)	0.74%	0.81%	0.76%	0.90%	0.91%
Past-Due and Nonaccrual >= 5%	5	3	6	7	8
ALLL/Total Loans (median %)	0.99%	1.04%	1.02%	0.97%	0.92%
ALLL/Noncurrent Loans (median multiple)	2.72	2.64	2.44	2.20	1.95
Net Loan Losses/Loans (aggregate)	0.10%	0.15%	0.23%	0.21%	0.21%
<b>Earnings (Year-to-Date Annualized)</b>	<b>Sep-04</b>	<b>Sep-03</b>	<b>Sep-02</b>	<b>Sep-01</b>	<b>Sep-00</b>
Unprofitable Institutions (#)	9	14	19	24	22
Percent Unprofitable	6.43%	9.59%	12.50%	15.89%	14.86%
Return on Assets (median %)	0.83	0.78	0.81	0.65	0.76
25th Percentile	0.56	0.51	0.51	0.28	0.38
Net Interest Margin (median %)	3.53%	3.54%	3.71%	3.49%	3.70%
Yield on Earning Assets (median)	4.99%	5.25%	6.14%	7.00%	7.37%
Cost of Funding Earning Assets (median)	1.48%	1.67%	2.33%	3.59%	3.68%
Provisions to Avg. Assets (median)	0.06%	0.07%	0.10%	0.08%	0.07%
Noninterest Income to Avg. Assets (median)	0.31%	0.35%	0.37%	0.38%	0.36%
Overhead to Avg. Assets (median)	2.57%	2.64%	2.75%	2.81%	2.71%
<b>Liquidity/Sensitivity</b>	<b>Sep-04</b>	<b>Sep-03</b>	<b>Sep-02</b>	<b>Sep-01</b>	<b>Sep-00</b>
Loans to Deposits (median %)	72.08%	66.80%	67.19%	70.29%	71.16%
Loans to Assets (median %)	58.65%	56.69%	56.19%	58.83%	60.12%
Brokered Deposits (# of Institutions)	24	22	17	14	12
Bro. Deps./Assets (median for above inst.)	2.48%	3.06%	5.35%	8.25%	3.34%
Noncore Funding to Assets (median)	16.03%	15.34%	15.12%	14.47%	14.00%
Core Funding to Assets (median)	71.80%	73.00%	73.65%	72.97%	72.94%
<b>Bank Class</b>	<b>Sep-04</b>	<b>Sep-03</b>	<b>Sep-02</b>	<b>Sep-01</b>	<b>Sep-00</b>
State Nonmember	49	51	53	51	49
National	21	22	23	24	24
State Member	5	6	6	5	5
S&L	9	11	11	11	12
Savings Bank	32	30	33	34	31
Stock and Mutual SB	24	26	26	26	27
<b>MSA Distribution</b>	<b># of Inst.</b>	<b>Assets</b>	<b>% Inst.</b>	<b>% Assets</b>	
Newark NJ PMSA	29	16,028,452	20.71%	10.02%	
Bergen-Passaic NJ PMSA	27	56,665,730	19.29%	35.41%	
Philadelphia PA-NJ PMSA	22	27,650,610	15.71%	17.28%	
Middlesex-Somerset-Hunterdon NJ PMSA	18	21,688,916	12.86%	13.55%	
Jersey City NJ PMSA	11	20,554,763	7.86%	12.85%	
Trenton NJ PMSA	10	6,537,171	7.14%	4.09%	
Monmouth-Ocean NJ PMSA	9	3,939,118	6.43%	2.46%	
Atlantic-Cape May NJ PMSA	9	2,706,758	6.43%	1.69%	
Vineland-Millville-Bridgeton NJ PMSA	5	4,240,633	3.57%	2.65%	